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September 12, 2006

RECEIVED

SEP 12 2006

PUBLIC SERVICE
COMMISSION

Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Case No. 2006-00123

Dear Beth:

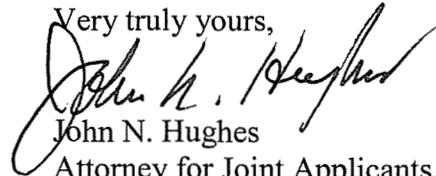
Mountain Water District and the city of Pikeville are beginning the last phase of the transfer of wastewater assets and customers as provided in the May 8, 2005 Agreement, which was approved in this case on July 18, 2006.

This portion of the transfer involves the financing and construction of certain facilities necessary to reverse the flow of wastewater from Mountain's Mossy Bottom plant to the city's treatment facility. As explained in the attached letter and Final Engineering Report, Mountain will initially finance and construct the facilities, but Pikeville will assume the loans and the ownership and operation of the facilities as well as serve the customers added to the system as part of this extension.

Because this financing and construction was part of the overall transfer of financing, facilities and customers among Mountain and Pikeville and was part of the Agreement approved by the Commission in this case in the order of July 18, 2006, the Joint Applicants believe no further Commission review or approval is needed. However, to assure that the Commission is aware of the progress of the transfer, this information is being provided.

If any further information or any other Commission approval is needed to proceed with this phase of the transfer of assets, please let me know.

Very truly yours,

A handwritten signature in black ink, appearing to read "John N. Hughes". The signature is fluid and cursive, with a large initial "J" and "H".

John N. Hughes
Attorney for Joint Applicants,
City of Pikeville and Mountain
Water District

Cc: Will Brown
Donovan Blackburn
Roger Rectenwald
Doug Griffin

MOUNTAIN WATER DISTRICT
P.O. Box 3157 Pikeville KY 41502

CITY OF PIKEVILLE
118 College Street Pikeville KY 41501

September 5, 2006

Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Attn: Ms. Beth A. O'Donnell, Executive Director
Re: Case No. 2006000123

Dear Executive Director O'Donnell,

Please be advised that pursuant to agreement executed May 8, 2005, the City of Pikeville and Mountain Water District are cooperating in the construction of two sewer line extensions and the flow reversal project. Specifically, prior to the Commission's conditioned approval of the asset transfer, Mountain Water District opened bids on July 5, 2006 on these project activities. The project funding sources, EPA Special Appropriations Grant (\$967,800) and RD loan (\$900,000) are approved and available. However, the lowest and best bid was some \$143,120 higher than the available funding.

On Monday, August 28, 2006, the Pikeville City Commission authorized the allocation of this amount, namely, \$143,120, to the project from available Coal Severance project funds, thereby allowing the project to proceed in a timely fashion.

Further, in order to expedite the project, Mountain Water District has agreed to continue to administer the project through its completion, sharing information and incorporating technical recommendations offered by Pikeville Public Works Department staff, regarding type and size of pumps and other similar matters.

Please be advised, the RD loan for this current project, though applied for in the name of the Mountain Water District will be transferred to the City of Pikeville by letter, as per the guidance of RD such that Mountain Water District will not incur any indebtedness relating to the project expected to be under construction within the next several weeks. All project costs, including any administrative costs will be borne by the available funding sources, cited above, and will not be borne by Mountain Water District nor impact Mountain Water District customer rates.

Finally, be advised that RD staff has informed Mountain Water District and the City of Pikeville that closing documents relating to the transfer of the existing RD loan from Mountain Water District to the City of Pikeville are in preparation in Atlanta and are expected within two weeks from today. In the interim, staff of both utilities are preparing for the transition of

responsibilities that includes a shadow billing procedure by Pikeville in October to assure accuracy and smooth customer transition. Customers will be notified of the transfer in the final billing statement made by Mountain Water District and via the local news media.

Please advise if there are questions or concerns of the Commission with regard to the implementation of this transfer.

Respectfully,



Ms. Toni Akers, Chair
Mountain Water District



Mr. Frank Justice, Mayor
City of Pikeville

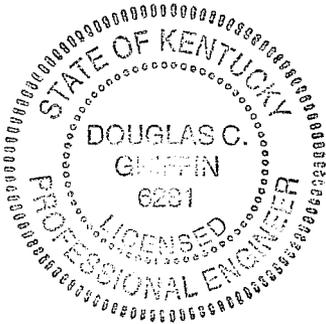
MOUNTAIN WATER DISTRICT

COWPEN CREEK SEWER PROJECT

FINAL ENGINEERING REPORT

PROJECT No. 1999057

**KENVIRONS, INC.
FRANKFORT, KENTUCKY**



FINAL ENGINEERING REPORT
AUGUST 30, 2006

This project as originally conceived was to provide sewer service to the residents of Cowpen Creek and to expand the capacity of the existing Mossy Bottom Sewage Treatment Plant.

Based on an agreement between the Mountain Water District and the City of Pikeville, the project has been changed to provide sewer service to the residents of Cowpen Creek and Harmons Branch, a small area in the same general vicinity, and redirect the sewer flow from the Mossy Bottom STP to the City of Pikeville for treatment. This is advantageous to both parties in that the City of Pikeville has excess treatment capacity and the decommissioning of the Mossy Bottom Plant will allow it to be moved to another location thus expanding MWD's ability to provide sewer service to additional residents in other parts of the County.

The scope of the project has also changed in the number of customers to be served. Originally there was to be 101 customers but the demand for service has increased such that there will be 235 customers.

The sewer collection system will be a low pressure type system which is existing in other parts of the County with an individual grinder pump station located at each residence. The grinder pumps will be purchased under an existing long term contract.

Bids were received for Contract 1 – Cowpen Area Sewer System and Contract 2 – US 23 Sewer Flow Reversal on July 5, 2006 at the offices of Mountain Water District. The low bidders for each of the contracts are as shown below:

Contract 1

US Rentals and Construction, Inc.	\$975,150.00
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Contract 2

Music Construction, Inc.	\$369,390.00
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Copies of certified bid tabulations are attached as Exhibit A.

A budget summary has been prepared for the project and is as shown below:

Budget Summary - Cowpen Project - With Bid Costs

Contract 1 - Cowpen Sewers.....	\$975,150
Existing Pump Purchase Contract.....	329,000
Contract - Flow Reversal.....	369,390
Total Bid of Contracts.....	<u>\$1,673,540</u>
Contingency.....	83,680
Construction Total.....	<u>\$1,757,220</u>
Preliminary Engineering.....	\$7,500
Engineering.....	113,480
Additional Engineering.....	2,000
Inspection.....	70,720
Legal and Administration.....	30,000
Land and Rights.....	20,000
Interest.....	<u>10,000</u>
PROJECT TOTAL.....	\$2,010,920
Available Funding.....	<u>\$1,867,800</u>
Shortage.....	\$143,120

It is noted that a shortfall of \$143,120.00 exists primarily due to the elapsed time since the funding was obtained and the scope changes which have been made. The City of Pikeville has agreed to provide the necessary funding needed in order to complete the project. A copy of the commitment from the City of Pikeville is attaches as Exhibit B.

It is therefore recommended that the necessary contracts be awarded to the low bidders respectively and the pre-construction be scheduled subject to the issuance of the necessary approvals.

EXHIBIT A

CERTIFIED BID TABULATIONS

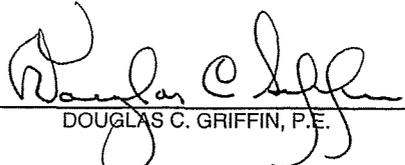
KENVIRONS, INC.
 452 VERSAILLES ROAD
 FRANKFORT, KENTUCKY 40601
 TEL (502) 695-4357
 FAX (502) 695-4363

BID TABULATIONS

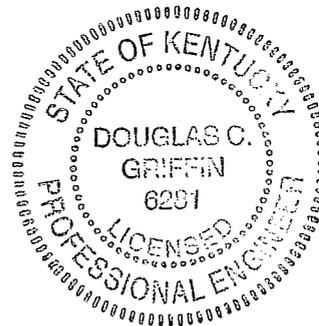
PROJECT: Contract 1 - Cowpen Area Sewer System
 LOCATION: Mountain Water District Office
 BID DATE: July 5, 2006 @ 10:00 a.m. (local time)

Base Bid				US Rental & Construction, Inc. P.O. Box 3194 Pikeville, KY 41502		H2O Construction Co., Inc. 91 Hillcrest Drive Pikeville, KY 41501		Music Construction, Inc. 2510 Margaret Ann Drive Mt. Sterling, KY 40353	
ITEM NO.	ITEM DESCRIPTION	UNIT	QUANTITY	UNIT COST	COST	UNIT COST	COST	UNIT COST	COST
1	4" PE SDR-17 Force Main	LF	3,400	\$11.00	\$37,400.00	\$10.50	\$35,700.00	\$13.00	\$44,200.00
2	3" PE SDR-17 Force Main	LF	4,050	10.00	40,500.00	9.50	38,475.00	12.00	48,600.00
3	2" PE SDR-17 Force Main	LF	31,900	8.00	255,200.00	9.00	287,100.00	10.00	319,000.00
4	1.5" PE SDR-17 Force Main	LF	2,100	7.50	15,750.00	8.00	16,800.00	10.00	21,000.00
5	3" Bore & Case	LF	25	100.00	2,500.00	65.00	1,625.00	70.00	1,750.00
6	Tie-In to Existing 8" Force Main	EA	2	1,000.00	2,000.00	2,000.00	4,000.00	2,000.00	4,000.00
7	Individual Service Connection	EA	235	1,700.00	399,500.00	1,400.00	329,000.00	1,500.00	352,500.00
8	4" Gravity Sewer Laterals	LF	2,400	12.00	28,800.00	15.00	36,000.00	25.00	60,000.00
9	1.25" PE SDR-11 Service Line	LF	23,500	6.00	141,000.00	8.00	188,000.00	10.00	235,000.00
10	Air Release/Vacuum Valve Assembly	EA	6	1,500.00	9,000.00	2,000.00	12,000.00	1,500.00	9,000.00
11	End-Line Cleanout	EA	25	1,200.00	30,000.00	1,000.00	25,000.00	2,000.00	50,000.00
12	In-Line Cleanout	EA	5	1,700.00	8,500.00	1,200.00	6,000.00	2,500.00	12,500.00
13	Pavement Replacement	LF	500	10.00	5,000.00	28.00	14,000.00	20.00	10,000.00
TOTAL BASE BID					\$975,150.00		\$993,700.00		\$1,167,550.00

THE ABOVE IS A TRUE AND COMPLETE TABULATION OF BIDS RECEIVED UNTIL 10:00 A.M. (LOCAL TIME) AT THE MOUNTAIN WATER DISTRICT OFFICE.

BY: 
 DOUGLAS C. GRIFFIN, P.E.

07/06/06
 DATE



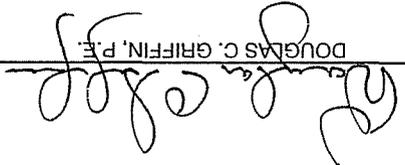
BID TABULATIONS
 PROJECT: Contract 2 - US 23 Sewer Flow Reversal
 LOCATION: Mountain Water District Office
 BID DATE: July 5, 2006 @ 10:00 a.m. (local time)

KENVIRONS, INC.
 452 VERSAILLES ROAD
 FRANKFORT, KENTUCKY 40601
 TEL (502) 695-4367
 FAX (502) 695-4363

Base Bid	
Music Construction, Inc. 2510 Margaret Ann Drive Mt. Sterling, KY 40353	H2O Construction Co., Inc. 91 Hillcrest Drive Pikeville, KY 41501

ITEM NO.	ITEM DESCRIPTION	UNIT	QUANTITY	UNIT COST	COST	UNIT COST	COST
1	8" PE SDR-17 Force Main (Directional Bore)	LF	8,000	\$19.00	\$152,000.00	\$35.00	\$280,000.00
2	8" PE SDR-17 Force Main (Trenching)	LF	3,460	19.00	65,740.00	25.00	86,500.00
3	4" PE SDR-17 Force Main	LF	3,050	13.00	39,650.00	16.00	48,800.00
4	Bore & Case for US 23 Crossing	LF	150	150.00	22,500.00	225.00	33,750.00
5	Tie-In to Pikeville Lift Station	EA	1	3,000.00	3,000.00	2,500.00	2,500.00
6	8" x 4" Tie-In	EA	1	2,000.00	2,000.00	2,000.00	2,000.00
7	4" x 3" Tie-In	EA	1	1,500.00	1,500.00	2,000.00	2,000.00
8	Air Release/Vacuum Valve Assembly	EA	1	3,000.00	3,000.00	2,500.00	2,500.00
9	Chevron Lift Station Modification	LS	1	40,000.00	40,000.00	65,000.00	65,000.00
10	Mossy Bottom Plant Lift Station Modification	LS	1	40,000.00	40,000.00	55,000.00	55,000.00
TOTAL BASE BID					\$369,390.00		\$578,050.00

THE ABOVE IS A TRUE AND COMPLETE TABULATION OF BIDS RECEIVED UNTIL 10:00 A.M. (LOCAL TIME) AT THE MOUNTAIN WATER DISTRICT OFFICE.

BY:  DOUGLAS C. GRIFFIN, P.E.
 DATE: 07/05/06

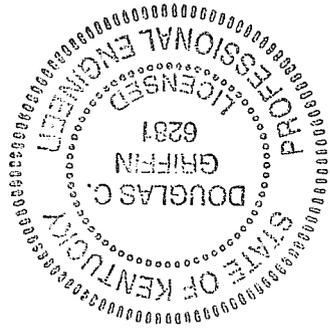
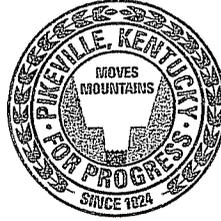


EXHIBIT B

FUNDING COMMITMENT OF THE CITY OF PIKEVILLE



CITY OF PIKEVILLE

118 College Street
Pikeville, Kentucky 41501
(606) 437-5100
Fax Number (606) 437-5106

Frank Justice, II
Mayor

Donovan Blackburn
City Manager

August 28, 2006

Ms. Toni Akers, Chair
Mountain Water District
P.O. Box 3187
Pikeville, Kentucky 41502

Dear Ms. Akers,

The City of Pikeville has been informed that there is a funding shortfall on the recently bid Mossy Bottom sewer extensions (Cowpen and Harmond Branch) and flow reversal project in the amount of \$143,120.

Please be advised that pursuant to Pikeville City Commission action on August 28th 2006, the City of Pikeville took official action and has allocated \$143,120 in a current, 2006 Coal Severance Fund project to assure that this needed Mossy Bottom project can progress as quickly as possible. It is expected that the City's Coal Severance project will have final approval and be ready for a draw down request on or before October 1, 2006.

Once I have been notified by the Kentucky Infrastructure Authority that funds are available for draw down, I will so advise you so that your project administrator may access these funds for progress payments up to the amount stated.

Sincerely,

Donovan Blackburn,
City Manager - Pikeville, KY

MAYOR